

Message Text

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C O N F I D E N T I A L LISBON 0164

E.O. 11652: GDS

TAGS: BGEN, EINV, PO

SUBJECT: TIMEX PROPOSES MASS LAYOFF

SUMMARY: TIMEX HAS PROPOSED TO GOP MASS LAYOFF OF ITS WORKERS AND REDUCTION IN WORK WEEK FOR REMAINDER OF 2000-PERSON STAFF. REASONS ARE DECLINE IN DEMAND AND HIGH COSTS. NEGOTIATIONS IN PROGRESS. TIMEX EXECUTIVES SATISFIED WITH GOP RESPONSE THUS FAR AND CONFIDENT OF ULTIMATE SATISFACTORY SOLUTION. EMBASSY HAS OFFERED ASSISTANCE. END SUMMARY.

1. IN MID-DECEMBER TIMEX PROPOSED TO LABOR MINISTRY THE LAY-OFF OF ABOUT 800 WORKERS AND THE REDUCTION TO A THREE-DAY WORK WEEK FOR REST OF 2000 PERSON WORK FORCE. FIRM OFFERED FULL LEGAL INDEMNITY TO 800 AND EXPRESSED WILLINGNESS TO NEGOTIATE ALTERNATIVE MEASURES TO CUT WORK FORCE.

2. TIMEX, ESTABLISHED IN 1970 AND LOCATED ACROSS RIVER FROM LISBON, ASSEMBLES MECHANICAL WATCHES FROM BOTH IMPORTED AND DOMESTICALLY SUPPLIED PARTS. IT ALSO MANUFACTURES PARTS FOR OTHER TIMEX SUBSIDIARIES AND EXPORTS 95 PERCENT OF PORTUGUESE PRODUCTION. FIRM, WHICH OWNS PLANT AND LARGE PLOT OF PROPERTY, REPORTEDLY SUPPLIES ABOUT 12 PERCENT OF DOMESTIC MARKET. ACCORDING TO TIMEX EXECUTIVES, FIRM HAS INVESTED \$60 MILLION IN PORTUGUESE OPERATION, ALMOST ALL IMPORTED FROM OUTSIDE (ONLY ABOUT \$1 MILLION CAME FROM PORTUGUESE BANKING SYSTEM).

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3. REASONS FOR PROPOSED LAYOFF ARE SEVERE DECLINE IN DEMAND AND

HIGH OPERATING COSTS IN PORTUGAL. TWO MAIN FACTORS AFFECTING DEMAND ARE COMPETITION FROM OTHER MECHANICAL WATCHMAKERS AND FROM DIGITAL AND QUARTZ WATCHES. ACCORDING TIMEX, SWISS FIRMS ARE DUMPING IN MAJOR TIMEX MARKETS (JAPAN, INDIA), AND BRAZIL, ANOTHER MAJOR MARKET, HAS IMPOSED TIGHT RESTRICTIONS ON IMPORTED WATCHES. IN CERTAIN MARKETS, NEW TYPE WATCHES ARE SERIOUSLY REDUCING SALES OF MECHANICAL WATCHES.

4. TIMEX HAS HAD SERIOUS LABOR DIFFICULTIES, INCLUDING A SIX-WEEK STRIKE IN MID-1974. ISSUES HAVE INVOLVED WAGE INCREASES, FIRING OF MANAGEMENT, CANCELLATION OF INCENTIVE PAY SYSTEMS, FRINGE BENEFITS, AND RECLASSIFICATION OF WORKERS. SOME ISSUES STILL PENDING SINCE MAY 1974. IMMEDIATELY AFTER STRIKE, BASIC WAGE FOR MAJORITY OF PLANT WAS INCREASED FROM \$80 TO \$160. INCREASED ABSENTEEISM AND LEAVE, LABOR AGITATION (LED BY MAOIST MRPP WHICH HAS CONTROLLED WORK FORCE), SHORTER WORK WEEK, AND ELIMINATION OF INCENTIVE PLAN HAVE CUT PRODUCTIVITY DRASTICALLY. ACCORDING TIMEX EXECUTIVES, OTHER FOREIGN SUBS NOW PRODUCING AT LOWER COST THAN PORTUGAL AND HEAD OFFICE HAS SERIOUSLY CONSIDERED SHUTTING DOWN COMPLETELY IN PORTUGAL; HOWEVER, LARGE INVESTMENT DICTATES CONTINUED PRESENCE AS LONG AS POSSIBLE.

5. THREE-WAY NEGOTIATIONS PRESENTLY TAKING PLACE BETWEEN MINISTRY, WORKERS AND TIMEX. ALL SIDES NOW ATTEMPTING AGREE ON GROUND RULES FOR PREPARATION AND PRESENTATION OF POSSIBLE WORKER COUNTER-PROPOSAL. TIMEX OFFICIALS STATE THEY ARE SATISFIED THUS FAR WITH HANDLING OF CASE BY MINISTRY. THEY HAVE SEEN MINISTER ROSA TWICE; HIS INTEREST AND CONCERN ARE ILLUSTRATED BY HIS GRANTING OF APPOINTMENTS IMMEDIATELY UPON REQUEST. ROSA HAS COUNSELED TIMEX TO BE PATIENT AND NEGOTIATE. FIRM'S OFFICIALS SEEM CONFIDENT THEY WILL BE ALLOWED ULTIMATELY LAY OFF SUBSTANTIAL PORTION OF WORK FORCE.

6. PROPOSED LAYOFF HAS RECEIVED FLURRY OF PUBLICITY. MOST PRESS ARTICLES USED SPECIFIC TIMEX CASE AS TAKE-OFF POINT FOR GENERALIZED ATTACK ON ALL MULTINATIONALS. ONE TV PORTRAYAL OF SITUATION WAS SO BIASED AGAINST FIRM THAT CIP (PORTUGUESE INDUSTRIAL CONFEDERATION) CONSIDERING OFFICIAL PROTEST TO GOP. PRESS ALSO HAS REPORTED WORKERS COMMUNIQUE CHARGING LABOR MINISTRY WITH FAVORING MANAGEMENT.

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7. EMBASSY HAS ASKED WHETHER TIMEX THINKS OFFICIAL USG ASSISTANCE MIGHT BE HELPFUL. FIRM RESPONDED NEGATIVELY PREFERRING TO CONTINUE WITH NEGOTIATIONS THROUGH REGULAR CHANNELS. GENERAL MANAGER DID NOTE THAT EMBASSY MIGHT MENTION TIMEX'S DESIRE TO REMAIN IN PORTUGAL TO HIGH RANKING GOP OFFICIALS SHOULD OPPORTUNITY ARISE.

8. WILL CONTINUE TO REPORT DEVELOPMENTS.

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